RESTORING FAIRNESS IN FEDERAL TAXATION

Reinstatement of the Federal Sales Tax Deduction

The current tax code contains a profound inequity that should be rectified. Simply put, residents of states without state income taxes now pay higher taxes to the federal government than residents of states with state income taxes. That is unjust. All taxpayers in this country should be treated equally by the federal government, regardless of the system of taxation their state enacts. During the 108th Congress, we have an opportunity to do the right thing and correct the problem.

The repeal of the sales tax deduction in 1986, although well intended, resulted in a significant disparity between states that raise revenue using an income tax and those who do not. By disallowing state sales tax deductions, but retaining state income tax deductions in the federal code, we now have a system in which an individual with an income and financial profile that is identical to another person may pay higher taxes to the federal government simply because they live in different states. As a result, residents of **Alaska, Texas, Florida, Washington, New Hampshire,* Tennessee,* South Dakota, Nevada, and Wyoming** pay more in federal taxes than residents of equal income in other states. In effect, residents of states without income taxes are underwriting a disproportionate share of the federal budget.

There is an easy and straightforward way to correct this situation.

SUMMARY OF THE SALES TAX EQUITY ACT

This bill would allow taxpayers, who itemize their deductions, the option to deduct *<u>either</u>* their state and local income tax *<u>or</u>* state and local sales taxes paid in a given year. By giving a choice of deducting either sales or income tax, the budgetary scoring is kept to a minimum, but equity and fairness are restored across states.

To keep the sales tax deduction simple for taxpayers, the Internal Revenue Service would be directed to develop standard tables for taxpayers to use in determining their average sales tax deduction. Such tables, similar to those used by taxpayers prior to 1986, would include average calculations, based upon income and household size, for a taxpayer in a given state. The bill <u>does not</u> restore the itemized deduction of individual purchases; it only allows taxpayers to deduct an averaged amount based on income level and family size.

Upon enactment of the legislation, taxpayers in states without an income tax would again be treated in a more equitable manner relative to those in other states. However, the impact on the federal Treasury would be limited since taxpayers would only be allowed to take one of the two deductions, and because taxpayers would be allowed to deduct only an average amount of sales tax paid in a given year.

This is a fair, straightforward approach to restoring some fairness to the tax code as it applies to taxpayers throughout the nation.

* certain interest and dividend income is taxed.